Strengthening LIBOR – proposal to implement recommendation number 6 of 'The Wheatley Review of LIBOR – Summary of Feedback Received

On 14th December 2012 the BBA published a feedback statement detailing its final timetable for the implementation of recommendation number 6 of "The Wheatley Review of LIBOR". This followed a four-week public consultation period during which market participants were invited to comment on proposed changes to the existing LIBOR framework. The original consultation paper, entitled *'Strengthening LIBOR – proposal to implement recommendation number 6 of 'The Wheatley Review of LIBOR'* published on 8th November 2012, contained thirteen individual questions designed to give individuals the opportunity to provide specific feedback on each of the proposed changes.

During the consultation period the BBA received a total of 29 responses as follows:

Category:	Responses Received:
LIBOR Panel Banks	8
Individual Corporate Treasurers	8
Industry Bodies	7
Non-contributor Banks	2
Individuals	2
Clearing Houses	1
Fund Managers	1

The BBA would like to take this opportunity to thank all those who took the time to comment. The following is a summary of responses received on each of the questions posed in the consultation paper. The BBA would like to note that the percentages detailed below should be viewed as a general guide only based on the total number of responses received. Individual responses have been given the same weighting as those received from industry bodies which represent the interests of a significant number of market participants. As such, each percentage should be read with reference to the explanatory notes provided for each question.

Question 1: Do respondents agree that the GBP Repo benchmark may be discontinued?

Responses	Yes	No
9	89%	11%

The BBA received a total of nine responses to this question. Of these, eight (89%) agreed that the GBP Repo benchmark was rarely referenced and may be discontinued.

1 individual (11%) stated that GBP Repo should not be discontinued but did not elaborate further.

Question 2: Do respondents agree that the end of December 2012 is a suitable date to cease calculation and publication of the GBP Repo benchmark?

Responses	Yes	No
10	80%	20%

Of ten responses to this question, eight (80%) agreed that as this benchmark is not widely used, the end of December 2012 would be a suitable date to make this change.

Two respondents (20%) expressed a view that the proposed timeframe for ceasing publication of GBP Repo was too aggressive and would not allow sufficient time for contracts which reference the rate to be renegotiated. However, no identification of contracts which might be affected was provided and neither of these responses suggested an alternative timeframe. The GBP Repo benchmark was accordingly discontinued on 31/12/2012. Since this, the BBA has received just one communication from a user who has been inconvenienced by the implementation of this change.

Question 3: Do respondents agree that each of these tenors may be removed from all LIBOR currencies?
(2 Wk, 2m, 4m, 5m, 7m, 8m, 9m, 10m, 11m)

Responses	Yes	No	Split
14	71%	8%	23%

Ten of the respondents to this question (71%) were in agreement that the proposed tenors could be removed from all LIBOR. Of these responses, one also suggested that the 12 month tenor also be removed from the current LIBOR framework.

A single respondent (7%) stated that the removal of these tenors would lead to market disruption.

Three respondents (21%) were in agreement that the majority of these rates could be discontinued but requested that certain fixings including 2 and 9 month and 2 week USD be retained. The 2 month rate was also cited as important in responses to other questions. Please refer to Questions 5 & 12 for further details.

Question 4: Do respondents agree that the end of January 2013 is a suitable date to make this change? (Removal of tenors)

Responses	Yes	No
11	45%	55%

Five respondents to this question (45%) raised no objections to the proposed timeframe for removing these tenors from all currencies. Two respondents suggested that this change may be implemented sooner than January 2013.

A total of six respondents (55%) raised concerns that implementing this change in January 2013 would not allow adequate time to renegotiate contracts which reference these fixings. One respondent recommended allowing a period of 6 months before removing these tenors and two cited the end of March 2013 as being a more suitable date. The remaining three responses did not specify how long they felt would be required to renegotiate contracts.

Question 5: Do respondents agree that these are the correct maturities to be retained? (Overnight/spot-next, 1wk, 1m, 3m, 6m, 12m)

Responses	Yes	No
12	**83%**	**17%**

Of the twelve responses to this question ten (83%) agreed that these were the most widely referenced maturities and should be retained.

Two respondents (17%) suggested that the overnight/spot-next fixing could also be removed as it is rarely used for benchmarking. One respondent suggested that the 12 month fixing should be removed from the LIBOR framework.
In addition to comments made in direct response to this question, a number of respondents made reference to this these proposals in their response to question 13. Four responses suggested the 2 week tenor should be retained and five indicated that they would prefer the 2 month tenor to be continued. Two respondents stated that it would be desirable to retain the 9 month fixing.

Question 6: Do respondents agree that the AUD LIBOR fixings may be discontinued?

Responses	Yes	No
12	**75%**	**25%**

The BBA received twelve responses to this question. Nine respondents (75%) were in agreement that LIBOR fixings for the Australian Dollar could be removed. Of these, 2 respondents recommended that alternative benchmarks and fall-back provisions should be identified prior to this change being implemented.

A total of three respondents (25%) expressed a view that the Australian Dollar fixings should be retained. One respondent cited this as a major commodity trading currency. The other two respondents provided no explanation for wanting to retain this currency.

Question 7: Do respondents agree that the NZD LIBOR fixings may be discontinued?

Responses	Yes	No
11	**82%**	**18%**

Of the eleven responses received for this question, nine (82%) agreed that NZD LIBOR fixings could be discontinued. A number of respondents suggested that the BBA should suggest a suitable alternative benchmark. One of these respondents said this change should only be put into place once clarity had been provided on how affected contracts will be managed going forward.

Two respondents (18%) stated they would prefer to retain NZD fixings but provided no reason.

Question 8: Do respondents agree that the end of February 2013 is a suitable date to make these changes?

Responses	Yes	No	Split
12	**67%**	**25%**	**8%**

Eight responses to this question (67%) agreed that February 2013 would be a suitable date to make these changes. Two of these respondents qualified their position by stating that although they agreed in principle to the proposed timeframe, clarity on alternative benchmarking options was needed.

Three respondents (25%) raised concerns that the proposed timeframe did not allow enough time for contracts to be renegotiated. One respondent stated that a period of 12 months would be required for this purpose. One respondent suggested March 2013 as a more suitable date.

One response (8%) from an industry body asserted that, although they were in favour of discontinuing New Zealand Dollar fixings as of February 2013, discontinuing Australian Dollar fixings within the same timeframe was too fast. A transitional period of 6 months was cited as a more reasonable timeframe to implement this change.

Question 9: Do respondents agree that the CAD LIBOR fixings may be discontinued?

Responses	Yes	No	Split
14	**57%**	**29%**	**14%**

The BBA received a total of fourteen responses to this question, of which eight (57%) were in favour of discontinuing Canadian Dollar LIBOR fixings due to a lack of use and the availability of alternative benchmarks.

Four respondents (29%) stated they would prefer to retain these fixings. Of these four respondents one stated that they would be adversely affected by the change due to bank facility documentation which was not due for renewal until 2015.

Two responses (14%) stated that these fixings could be discontinued so long as a viable alternative could be identified.

Question 10: Do respondents agree that the DKK LIBOR fixings may be discontinued?

Responses	Yes	No	Split
11	**82%**	**9%**	**9%**

Of the eleven respondents to this question eight (82%) raised no objections to the BBA's proposal to cease publication of Danish Krone LIBOR fixings. The general view among respondents was that these rates were seldom referenced and locally published benchmarks were available for application.

One respondent (9%) stated they would prefer to retain this fixing, but did not view it as important as other more commonly referenced currencies.

One respondent (9%) stated that, prior to these rates being discontinued, clarity should be established on how contracts will be transferred to domestic fixings so as to ensure an orderly transition.

Question 11: Do respondents agree that the SEK LIBOR fixings may be discontinued?

Responses	Yes	No	Split
11	82%	9%	9%

Respondents to this question were largely in agreement that LIBOR fixings for the Swedish Krona could be discontinued without causing market disruption. As with the Danish Krone, nine of the eleven responses (82%) stated that these fixings were not often referenced and that alternative benchmarks were available for application.

Just one respondent (9%) expressed a preference for the continued publication of SEK LIBOR.

As with previous proposals in the consultation paper, one respondent (9%) felt that discontinuing these rates would not present any significant issues, so long as sufficient clarity existed over how contracts which reference the rate could be transitioned to alternative benchmarks.

Question 12: Do respondents agree that the end of March 2013 is a suitable date to make these changes?

Responses	Yes	No	Split
12	67%	25%	8%

The BBA received a total of twelve responses to this question. Of these, eight (64%) felt that March 2013 would be a suitable data to discontinue publication of CAD, DKK and SEK LIBOR fixings. One response advocated that these changes could be implemented as early as December 2012. One industry body expressed a view that, though they agreed this could be a suitable date to implement these changes, contingency protocols should be in place beforehand and a period of adjustment would be needed for these to be established.

Three respondents felt that implementing these changes so soon would not allow for a sufficient period of market transition, and suggested that the timeframe be extended.

One industry body stated that it would be appropriate to implement this change for DKK and SEK fixings, but LIBORs for the CAD should be published for a longer period as this is a more heavily referenced currency.

Question 13: Are there any other issues or concerns about any of the proposals or timescales in this paper which respondents would like to highlight?

A total of twenty-four respondents provided additional feedback on this question. The responses received were varied and often based on the specific circumstances of individuals and organisations. However, there were a number of recurring themes. A number of respondents stated that although they were broadly in agreement with the scope of BBA's proposals, these changes should be introduced more slowly to allow for a greater period of market adjustment. Accordingly, a longer transition period was announced by the BBA on 14 December 2012, as detailed in the attached timetable.

Certain respondents stated that it would be helpful if the BBA were to suggest alternative, locally published benchmarks to be used in currencies for which LIBOR will no longer be published. In a feedback statement published on 14th December 2012 the BBA provided a list of alternative benchmark rates which market participants may wish to reference. Though the BBA was not in a position to officially endorse these rates, it was hoped that this list would prove useful and help to address the concerns of respondents.

A further request was for the BBA to provide protocols by which contracts could be transferred to alternative reference rates. A number of respondents also stated it would be useful if the BBA could set guidelines on the methodology of interpolation for those tenors being removed from the LIBOR framework. As stated in our feedback statement, due to the diverse range of financial instruments which currently reference LIBOR, it would not be possible to suggest specific protocols or an overarching method of interpolation to be applied all cases. The BBA also expects that specialised industry bodies will be able to provide alternative protocols to be used for specific cases.

As stated in our summary of responses to question 5, certain respondents asserted that the two-month tenor was still widely used and its discontinuation had the potential to cause a degree of market disruption. As a result of these concerns the decision was taken to retain this tenor within the LIBOR framework.

Copies of the BBA's original consultation paper and feedback statement can be found via the following link:

http://www.bbalibor.com/news-releases/bba-reports-findings-of-libor-reform-consultation

British Bankers' Association
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